

Washington State Auditor's Office

Audit Report

Audit Services

Report No. 57754

HOUSING AUTHORITY OF SKAGIT COUNTY

Skagit County, Washington

October 1, 1994 Through September 30, 1995

Issue Date: September 27, 1996

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HOUSING AUTHORITY OF SKAGIT COUNTY
Skagit County, Washington
October 1, 1994 Through September 30, 1995

**Independent Auditor's Report On Compliance With Laws And Regulations
At The Financial Statement Level (Plus Additional State Compliance
Requirements Per RCW 43.09.260)**

Board of Commissioners
Housing Authority of Skagit County
Mount Vernon, Washington

We have audited the financial statements, as listed in the table of contents, of the Housing Authority of Skagit County, Skagit County, Washington, as of and for the fiscal year ended September 30, 1995, and have issued our report thereon dated March 25, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to the Housing Authority of Skagit County is the responsibility of the housing authority's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the housing authority's compliance with certain provisions of laws, regulations, contracts, and grants.

We also performed additional tests of compliance with state laws and regulations as required by *Revised Code of Washington* (RCW) 43.09.260. This statute requires the State Auditor to inquire as to whether the housing authority complied with the laws and the *Constitution of the State of Washington*, its own ordinances and orders, and the requirements of the State Auditor's Office. Our responsibility is to examine, on a test basis, evidence about the housing authority's compliance with those requirements and to make a reasonable effort to identify any instances of misfeasance, malfeasance, or nonfeasance in office on the part of any public officer or employee and to report any such instance to the management of the housing authority and to the Attorney General. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with these provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of material noncompliance that are required to be reported herein under *Government Auditing Standards*. However, we noted an instance of noncompliance immaterial to the financial statements which is identified in the Schedule of Findings accompanying this report.

We also noted matters involving noncompliance with laws and regulations related to federal financial assistance which were reported to the housing authority's management in our report on specific requirements for major programs and in the Schedule of Federal Findings.

This report is intended for the information of management and the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

March 25, 1996

HOUSING AUTHORITY OF SKAGIT COUNTY
Skagit County, Washington
October 1, 1994 Through September 30, 1995

Independent Auditor's Report On Internal Control Structure
At The Financial Statement Level

Board of Commissioners
Housing Authority of Skagit County
Mount Vernon, Washington

We have audited the financial statements of the Housing Authority of Skagit County, Skagit County, Washington, as of and for the fiscal year ended September 30, 1995, and have issued our report thereon dated March 25, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the housing authority is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the housing authority, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk

that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operations that we consider to be material weaknesses as defined above.

We noted matters involving compliance with laws and regulations related to federal financial assistance which were reported to the housing authority's management in our report on specific requirements for major programs and in the Schedule of Federal Findings.

Further, we noted certain matters involving the internal control structure and its operation that we have reported to the management of the housing authority in a separate letter dated March 25, 1996.

This report is intended for the information of management and the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

March 25, 1996

HOUSING AUTHORITY OF SKAGIT COUNTY
Skagit County, Washington
October 1, 1994 Through September 30, 1995

Schedule Of Findings

1. The Housing Authority Should Improve Its Accounting For Fixed Assets

Our audit of the housing authority's fixed asset system revealed the following weaknesses:

- a. The housing authority has not established a fixed asset policy.
- b. The housing authority has not performed a comprehensive physical inventory of fixed assets for at least three years.
- c. We could not locate all assets recorded in the housing authority's fixed asset listings. While locating assets we observed other assets which were not properly tagged or otherwise identified as housing authority property.
- d. The housing authority has not performed reconciliations between its fixed asset listing, the general ledger and those physical inventories which were performed.

The *Revised Code of Washington* (RCW) 43.09.200 states:

The accounts shall show the receipt, use and disposition of all public property

The American Institute of Certified Public Accountants (AICPA) in its *Codification of Statements on Auditing Standards*, AU Section 319, Appendix D, states in part:

Establishing and maintaining an internal control structure is an important management responsibility. In establishing specific internal control structure policies and procedures concerning an entity's ability to record, process, summarize, and report financial data that is consistent with management's assertion embodied in the financial statements, some of the following objectives management may wish to consider include the following:

Transactions are recorded as necessary (1) to permit preparation of financial statements in conformity with generally accepted accounting principles or any other criteria applicable to such statements and (2) to maintain accountability of assets.

The recorded accountability of assets is compared with existing assets at reasonable intervals and appropriate action is taken with respect to any differences. [Emphasis ours.]

During the previous audit, we informed housing authority officials of the requirements in a management letter. According to the housing authority, adequate controls over fixed assets have not been achieved due to the assignment of insufficient resources to fixed asset accounting.

Because fixed assets are not properly accounted for, there is an increased risk for errors and/or irregularities to occur and not be detected in a timely manner, if at all. In addition, accounting records cannot be relied upon to determine the actual cost of fixed assets or to support the preparation of the financial statements.

We recommend the housing authority improve its accounting for fixed assets as follows:

- a. The housing authority should adopt a fixed asset policy.
- b. The housing authority should perform a comprehensive physical inventory at least once every two years.
- c. The housing authority should ensure all assets are tagged and included on the fixed asset listing.
- d. The housing authority should perform reconciliations between its fixed asset listing, the general ledger, and physical inventories to ensure all assets are properly accounted for.

Auditee's Response

The Housing Authority of Skagit County agrees that improvements to its fixed asset management process are needed. It might be noted, however, that no items of significant value were unlocated.

The Housing Authority of Skagit County is moving to create a single data base containing information regarding its fixed assets and will establish a formal policy concerning those fixed assets and will comply with the state auditor's recommendations.

Auditor's Concluding Remarks

We would like to express our appreciation to the Housing Authority of Skagit County for its written response to our audit report. We appreciate the efforts of the management of the housing authority to comply with our recommendations since that time. We will review the improvements made during the course of the next regularly scheduled audit. We would also like to take this opportunity to thank the staff throughout the Housing Authority of Skagit County for their assistance and cooperation during the audit process.

HOUSING AUTHORITY OF SKAGIT COUNTY
Skagit County, Washington
October 1, 1994 Through September 30, 1995

Independent Auditor's Report On Financial Statements And Additional Information

Board of Commissioners
Housing Authority of Skagit County
Mount Vernon, Washington

We have audited the accompanying financial statements of the Housing Authority of Skagit County, Skagit County, Washington, as of and for the fiscal year ended September 30, 1995, as listed in the table of contents. These financial statements are the responsibility of the housing authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Housing Authority of Skagit County at September 30, 1995, and the results of its operations and cash flows for the fiscal year then ended, in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of State Financial Assistance is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 25, 1996, on our consideration of the housing authority's internal control structure and a report dated March 25, 1996, on its compliance with laws and regulations.

Brian Sonntag
State Auditor

March 25, 1996

HOUSING AUTHORITY OF SKAGIT COUNTY
Skagit County, Washington
October 1, 1994 Through September 30, 1995

Independent Auditor's Report On Supplemental Information Required By HUD

Board of Commissioners
Housing Authority of Skagit County
Mount Vernon, Washington

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental Department of Housing and Urban Development (HUD) Section 8 statements listed in the table of contents, which are the responsibility of the management of the Housing Authority of Skagit County, are presented for the purposes of additional analysis and are not a required part of the financial statements and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole, on a basis of accounting practices prescribed or permitted by HUD.

This report is intended solely for the use of management, the board of commissioners, and HUD. However, this report is a matter of public record and its distribution is not limited.

Brian Sonntag
State Auditor

March 25, 1996

HOUSING AUTHORITY OF SKAGIT COUNTY
Skagit County, Washington
October 1, 1994 Through September 30, 1995

Independent Auditor's Report On Supplementary Information
Schedule Of Federal Financial Assistance

Board of Commissioners
Housing Authority of Skagit County
Mount Vernon, Washington

We have audited the financial statements of the Housing Authority of Skagit County, Skagit County, Washington, as of and for the fiscal year ended September 30, 1995, and have issued our report thereon dated March 25, 1996. These financial statements are the responsibility of the housing authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the financial statements of the Housing Authority of Skagit County taken as a whole. The accompanying Schedule of Federal Financial Assistance is presented for purposes of additional analysis and is not a required part of the financial statements. The information in the schedule has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Brian Sonntag
State Auditor

March 25, 1996

HOUSING AUTHORITY OF SKAGIT COUNTY
Skagit County, Washington
October 1, 1994 Through September 30, 1995

**Independent Auditor's Report On Compliance With The General Requirements
Applicable To Federal Financial Assistance Programs**

Board of Commissioners
Housing Authority of Skagit County
Mount Vernon, Washington

We have audited the financial statements of the Housing Authority of Skagit County, Skagit County, Washington, as of and for the fiscal year ended September 30, 1995, and have issued our report thereon dated March 25, 1996.

We have applied procedures to test the housing authority's compliance with the following requirements applicable to its federal financial assistance programs, which are identified in the Schedule of Federal Financial Assistance, for the fiscal year ended September 30, 1995:

- Political activity
- Civil rights
- Cash management
- Federal financial reports
- Drug-Free Workplace Act
- Administrative requirements

The following requirements were determined to be not applicable to its federal financial assistance programs:

- Davis-Bacon Act
- Relocation assistance and real property acquisition
- Allowable costs/cost principles
- Subrecipient monitoring

Our procedures were limited to the applicable procedures described in the Office of Management and Budget's (OMB) *Compliance Supplement for Single Audits of State and Local Governments* or alternative procedures. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the housing authority's compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the housing authority had not complied, in all material respects, with those requirements.

This report is intended for the information of management and the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not

limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

March 25, 1996

HOUSING AUTHORITY OF SKAGIT COUNTY
Skagit County, Washington
October 1, 1994 Through September 30, 1995

Independent Auditor's Report On Compliance With Specific Requirements
Applicable To Major Federal Financial Assistance Programs

Board of Commissioners
Housing Authority of Skagit County
Mount Vernon, Washington

We have audited the financial statements of the Housing Authority of Skagit County, Skagit County, Washington, as of and for the fiscal year ended September 30, 1995, and have issued our report thereon dated March 25, 1996.

We have also audited the housing authority's compliance with the requirements applicable to its major federal financial assistance programs, which are identified in the accompanying Schedule of Federal Financial Assistance, for the fiscal year ended September 30, 1995. Those requirements include:

- eligibility
- reporting
- special tests and provisions related to rent reasonableness certifications, annual rent and utility allowance adjustments, and inspections of units as described in the U.S. Department of Housing and Urban Development (HUD) Notice PIH 95-31 (HA)) *Public and Indian Housing Compliance Supplement*
- claims for advances and reimbursements
- and occupancy

The management of the housing authority is responsible for the housing authority's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit of compliance with those requirements in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the housing authority's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures for HUD Section 8 Certificate Program disclosed that the housing authority did not comply with the requirement that certifications of rent reasonableness be performed for each approved lease. In our opinion, it is necessary for the housing authority to comply with the requirement for the major program listed above.

In addition, the results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to in the second paragraph, which has been reported to management in a separate

letter dated March 25, 1996. We considered the instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, except for the instance of noncompliance with the requirements applicable to HUD Section 8 Certificate Program referred to in the fourth paragraph of this report and identified in the accompanying Schedule of Federal Findings, the Housing Authority of Skagit County complied, in all material respects, with the requirements referred to in the second paragraph that are applicable to its major federal financial assistance programs for the fiscal year ended September 30, 1995.

This report is intended for the information of management and the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

March 25, 1996

HOUSING AUTHORITY OF SKAGIT COUNTY
Skagit County, Washington
October 1, 1994 Through September 30, 1995

Independent Auditor's Report On Compliance With Specific Requirements
Applicable To Nonmajor Federal Financial Assistance Program Transactions

Board of Commissioners
Housing Authority of Skagit County
Mount Vernon, Washington

We have audited the financial statements of the Housing Authority of Skagit County, Skagit County, Washington, as of and for the fiscal year ended September 30, 1995, and have issued our report thereon dated March 25, 1996.

In connection with our audit of the financial statements of the housing authority and with our consideration of the housing authority's control structure used to administer its federal financial assistance programs, as required by OMB Circular A-128, *Audits of State and Local Governments*, we selected certain transactions applicable to its nonmajor federal financial assistance programs for the fiscal year ended September 30, 1995. As required by OMB Circular A-128, we have performed auditing procedures to test compliance with the requirements governing allowability of the program expenditures that are applicable to those transactions. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the housing authority's compliance with these requirements. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the preceding paragraph. With respect to the items not tested, nothing came to our attention that caused us to believe that the Housing Authority of Skagit County had not complied, in all material respects, with those requirements.

This report is intended for the information of management and the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

March 25, 1996

HOUSING AUTHORITY OF SKAGIT COUNTY
Skagit County, Washington
October 1, 1994 Through September 30, 1995

**Independent Auditor's Report On Internal Control Structure Used In
Administering Federal Financial Assistance Programs**

Board of Commissioners
Housing Authority of Skagit County
Mount Vernon, Washington

We have audited the financial statements of the Housing Authority of Skagit County, Skagit County, Washington, as of and for the fiscal year ended September 30, 1995, and have issued our report thereon dated March 25, 1996. We have also audited their compliance with requirements applicable to major federal financial assistance programs and have issued our report thereon dated March 25, 1996.

We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and about whether the housing authority complied with laws and regulations, noncompliance with which would be material to a major federal financial assistance program.

In planning and performing our audit, we considered the housing authority's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and on compliance with requirements applicable to major federal assistance programs and to report on the internal control structure in accordance with OMB Circular A-128. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal financial assistance programs. We have addressed internal control structure policies and procedures relevant to our audit of the financial statements in a separate report dated March 25, 1996.

The management of the housing authority is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- Assets are safeguarded against loss from unauthorized use or disposition.
- Transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.
- Federal financial assistance programs are managed in compliance with applicable laws and regulations.

Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures used in administering federal financial assistance programs in the following categories:

- **Accounting Controls**
 - Purchasing, receiving, and accounts payable
 - Payroll
- **General Requirements**
 - Political activity
 - Civil rights
 - Cash management
 - Federal financial reports
 - Drug-Free Workplace Act
 - Administrative requirements
- **Specific Requirements**
 - Eligibility
 - Reporting
 - Special requirements
 - Occupancy
- **Claims For Advances And Reimbursements**

For all of the applicable internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

The following internal control structure categories were determined to be insignificant to federal financial assistance programs:

- **Accounting Controls**
 - Cash receipts
 - Cash disbursements
 - Receivables
 - Inventory control
 - Property, plant, and equipment
 - General ledger
- **General Requirements**
 - Davis-Bacon Act
 - Relocation assistance and real property acquisition
 - Allowable costs/cost principles
 - Subrecipient monitoring
- **Specific Requirements**
 - Types of services
 - Matching, level of effort, earmarking
- **Amounts Claimed Or Used For Matching**

During the fiscal year ended September 30, 1995, the housing authority expended 81.4 percent of its total federal financial assistance under major federal financial assistance programs.

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements, and amounts claimed or used for matching that are applicable to the housing authority's major federal financial assistance programs, which are identified in the accompanying Schedule of Federal Financial Assistance. Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the housing authority's ability to administer federal financial assistance programs in accordance with applicable laws and regulations.

The matters involving the internal control structure and its operation that we consider to be reportable conditions are included in the Schedule of Federal Findings accompanying this report.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure policies and procedures used in administering federal financial assistance would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are considered to be material weaknesses as defined above. However, we noted a reportable condition involving the accounting and/or administrative internal control structure and its operation that we believe to be a material weakness as defined above. The condition, which is identified in the Schedule of Federal Findings accompanying this report, was considered in determining the nature, timing, and extent of the procedures to be performed in our audit of the housing authority's compliance with requirements applicable to its major federal financial assistance programs for the fiscal year ended September 30, 1995, and this report does not affect our report thereon dated March 25, 1996.

We noted certain matters involving the internal control structure and its operation that we have reported to the management of the housing authority in a separate letter dated March 25, 1996.

This report is intended for the information of management and the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

March 25, 1996

HOUSING AUTHORITY OF SKAGIT COUNTY
Skagit County, Washington
October 1, 1994 Through September 30, 1995

Schedule Of Federal Findings

1. The Housing Authority Should Perform And Document Certification Of Rent Reasonableness

During our testing of eligibility for the Housing and Urban Development (HUD) Section 8 Certificate Program, we noted the housing authority was unable to locate the certification of rent reasonableness for all tenants. The housing authority is required to retain all supporting documentation for these certifications for a three-year period. Without these certificates, we are unable to test for rent reasonableness in accordance with 24 CFR 882.106(b).

24 CFR 882.106(b) states:

The PHA shall certify for each unit for which it approves a lease that the Contract Rent for such units is:

- i. Reasonable in relation to rents currently being charged for comparable units in the private unassisted market, taking into account the location, size, type, quality, amenities, facilities and management and maintenance service of such unit, and
- ii. Not in excess of rents currently being charged by the Owner for comparable unassisted units.

24 CFR 85.42(b)(1) states:

Except as otherwise provided, records must be retained for three years from the starting date specified in paragraph (c) of this section.

According to the housing authority, the certification was either not completed due to employee oversight or completed but not properly documented in the tenant file.

Because the certificates could not be located, we were not able to determine if the housing authority verified the reasonableness of rent. If the rent is not determined to be reasonable, a questioned cost could result which would be equal to the difference of actual rent to "reasonable rent."

This condition is a material weakness.

We recommend the housing authority properly perform, document, and retain all required rent certifications.

Auditee's Response

The Housing Authority of Skagit County will comply with this recommendation.

As was stated in the Schedule of findings, we believe that all units are, indeed, rent reasonable, but the documentation was not completed in every case and was not placed in the client files. The Housing Authority of Skagit County will ensure that such documentation is complete and available in the client files.

Auditor's Concluding Remarks

We would like to express our appreciation to the Housing Authority of Skagit County for its written response to our audit report. We appreciate the efforts of the management of the housing authority to comply with our recommendations since that time. We will review the improvements made during the course of the next regularly scheduled audit. We would also like to take this opportunity to thank the staff throughout the Housing Authority of Skagit County for their assistance and cooperation during the audit process.